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COSTS AND SOURCES OF FARM-MORTGAGE LOANS IN THE UNITED STATES.

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CONTENTS.

COSTS FOR INTEREST AND COMMISSION.

The average costs for interest and commission on farm-mortgage loans are given in Table 1. The same information is shown graphically in Diagram A. The commission figures which have been used in making up this table represent the average annual commission, or where a single advance commission is paid on a long-term loan, the equivalent annual commission. It will be seen that, in general, the average costs for interest and commission together are highest in the Southern and Rocky Mountain States, and that the lowest figures appear in the New England and Middle Atlantic States and the more highly developed agricultural sections of the corn belt. The average commissions are shown to be especially high in certain States, notably North Dakota, North Carolina, Oklahoma, and Montana.

Note.—The aim of this bulletin is to indicate briefly some of the results obtained from a study bearing on interest rates and commissions on farm-mortgage loans and the sources of such loans in the United States.

TABLE 1.—*Farm-mortgage loans—Average rates for interest and commission.*

Geographic division and State.	Average interest rate.	Average annual commission.[1]	Interest plus commission.	Geographic division and State.	Average interest rate.	Average annual commission.[1]	Interest plus commission.
New England:				South Atlantic—Contd.			
Maine	6.1	0.1	6.2	West Virginia	6.2	0.2	6.4
New Hampshire	5.3	(2)	5.3	North Carolina	6.3	1.4	7.7
Vermont	5.6	(2)	5.6	South Carolina	7.8	.6	8.4
Massachusetts	5.6	(2)	5.6	Georgia	7.6	1.1	8.7
Rhode Island	5.7	.2	5.9	Florida	9.0	.6	9.6
Connecticut	5.7	(2)	5.7	East South Central:			
Middle Atlantic:				Kentucky	6.7	.4	7.1
New York	5.5	.1	5.6	Tennessee	7.3	.6	7.9
New Jersey	5.5	.3	5.8	Alabama	8.7	.7	9.4
Pennsylvania	5.5	.3	5.8	Mississippi	8.0	.5	8.5
East North Central:				West South Central:			
Ohio	5.9	.2	6.1	Arkansas	9.0	.6	9.6
Indiana	5.8	.4	6.2	Louisiana	8.2	.4	8.6
Illinois	5.7	.3	6.0	Oklahoma	6.6	1.8	8.4
Michigan	6.3	.3	6.6	Texas	8.4	.6	9.0
Wisconsin	5.7	.1	5.8	Mountain:			
West North Central:				Montana	8.4	1.6	10.0
Minnesota	6.3	.5	6.8	Idaho	8.2	.7	8.9
Iowa	5.6	.3	5.9	Wyoming	9.2	.8	10.0
Missouri	6.2	.6	6.8	Colorado	8.3	.6	8.9
North Dakota	6.9	1.8	8.7	New Mexico	9.7	.8	10.5
South Dakota	7.0	1.0	8.0	Arizona	9.1	.3	9.4
Nebraska	6.3	.8	7.1	Utah	8.6	.4	9.0
Kansas	6.1	.8	6.9	Pacific:			
South Atlantic:				Washington	7.9	.8	8.7
Delaware	5.6	(2)	5.6	Oregon	7.7	.3	8.0
Maryland	5.7	.4	6.1	California	7.4	.2	7.6
Virginia	6.1	.7	6.8				

[1] Where the report shows a commission paid once for all in advance on a loan running more than one year, the equivalent annual commission is used.
[2] Less than one-tenth of 1 per cent.

Where commission is charged, it is collected either as a cash payment in advance (that is, it is taken out of the amount represented by the face of the loan) or in a number of installments. Installment commission usually is collected annually or semiannually, with the interest, but frequently arrangements are made for the payment of the whole commission on a 5-year loan, say, in two or three annual installments.

RELATIVE IMPORTANCE OF DIFFERENT RATES OF INTEREST.

Averages such as those shown in Table 1 do not indicate the range of figures which go to make up the averages. Another table (Table 2) is presented, therefore, which indicates the relative importance of different rates reported for interest plus commission in each State. This is also shown graphically in Diagram B. It will be seen that those rates which figure most prominently in the New England and corn-belt States practically disappear as one enters the cotton belt or the Rocky Mountain States.

In order to indicate still further the relative importance of the different rates reported, the data have been assembled by districts within States, following the plan of subdivision used by the Bureau of Crop Estimates as shown by the map (Plate V). Under this arrangement each State is usually divided into nine districts. Table 3 shows

the averages for interest, annual commission, and interest plus commission, by districts. It will be noted that there is considerable variation in these district averages within certain States, such as Kansas, Nebraska, Minnesota, and the Dakotas, but that there is a fair degree of uniformity in such averages in other States, for example, New York, Ohio, Indiana, and Iowa. The causes of variation will be discussed later.

TABLE 2.—*Farm-mortgage loans—Per cent distribution of replies received according to rate reported for interest plus commission.*

Geographic division and State.	Percentage of total number of replies showing, for interest plus commission, a rate[1] of—							
	5 per cent.	6 per cent.	7 per cent.	8 per cent.	9 per cent.	10 per cent.	11 per cent.	12 per cent or over.
New England:								
Maine	4.2	77.1	12.5	6.2	....	....	....	....
New Hampshire	75.0	25.0	....	....	....	....	....	....
Vermont	26.1	73.9	....	....	....	....	....	....
Massachusetts	34.6	65.4	....	....	....	....	....	....
Rhode Island	33.3	50.0	16.7	....	....	....	....	....
Connecticut	26.3	73.7	....	....	....	....	....	....
Middle Atlantic:								
New York	37.9	57.6	4.0	0.5	....	....	....	....
New Jersey	33.3	56.7	6.7	3.3	....	....	....	....
Pennsylvania	32.1	57.2	8.9	.6	....	....	0.6	0.6
East North Central:								
Ohio	8.4	74.7	15.3	1.6	....	....	....	....
Indiana	2.7	77.8	15.5	3.6	0.5	....	....	....
Illinois	23.1	52.8	21.2	2.6	....	0.3	....	....
Michigan	4.0	49.6	34.8	8.0	1.8	.9	.4	.4
Wisconsin	34.0	51.0	12.9	2.1	....	....	....	....
West North Central:								
Minnesota	4.8	46.2	26.9	14.4	1.4	5.3	....	1.0
Iowa	13.2	76.9	9.4	.4	....	....	....	....
Missouri	1.2	45.2	30.4	16.9	4.2	1.8	.3	....
North Dakota	....	2.1	16.9	28.3	19.8	27.0	2.5	3.4
South Dakota	2.0	20.2	25.3	18.2	9.1	14.1	4.5	6.6
Nebraska	4.7	41.6	19.7	13.6	9.0	10.4	.7	.4
Kansas	1.1	43.8	36.9	10.9	2.9	3.7	.7	....
South Atlantic:								
Delaware	37.5	62.5	....	....	....	....	....	....
Maryland	8.6	74.3	14.3	2.8	....	....	....	....
Virginia	1.7	52.6	29.3	12.1	.9	....	1.7	1.7
West Virginia	....	79.6	8.2	10.2	....	2.0	....	....
North Carolina	....	40.3	22.4	15.7	6.0	6.7	2.9	6.0
South Carolina	....	....	6.2	63.9	20.6	5.2	2.1	2.0
Georgia	....	1.5	8.3	42.8	27.1	15.0	2.2	3.0
Florida	....		....	23.9	13.0	52.2	6.5	4.4
East South Central:								
Kentucky	.6	45.4	17.2	23.9	4.9	8.0	....	....
Tennessee	....	18.5	20.4	32.5	8.9	18.5	.6	.6
Alabama	....	.7	2.1	32.6	16.3	31.9	5.7	10.6
Mississippi	....	8.4	7.8	45.5	13.6	20.8	1.3	2.6
West South Central:								
Arkansas	....	....	2.2	13.0	17.9	59.8	2.7	4.4
Louisiana	....	2.5	1.3	58.2	13.9	13.9	5.1	5.1
Oklahoma	....	2.6	14.2	43.9	15.1	22.4	.9	.9
Texas	....	1.8	6.6	34.2	18.0	29.8	6.1	3.5
Mountain:								
Montana	....	....	1.2	9.8	15.9	52.4	6.1	14.6
Idaho	....	....	4.1	35.6	34.2	19.2	5.5	1.4
Wyoming	....	....	2.0	17.6	11.8	49.0	9.8	9.8
Colorado	....	3.9	14.7	25.5	21.6	15.7	9.8	8.8
New Mexico	....	....	....	7.0	18.6	32.6	14.0	27.9
Arizona	....	....	....	36.4	9.1	45.4	....	9.1
Utah	....	....	....	33.3	26.7	40.0	....	....
Pacific:								
Washington	....	1.2	9.9	39.5	30.9	11.1	2.5	4.9
Oregon	....	6.3	16.4	53.1	12.7	8.9	1.3	1.3
California	....	7.9	36.8	42.8	5.9	5.9	....	.7

[1] Rates are approximated to the nearest unit; that is, rates from 5.50 per cent to 6.49 per cent are counted as 6 per cent, etc.

TABLE 3.—*Farm-mortgage loans—Average rates for interest and commission, by States and districts.*

Geographic division, State, and district.	Average interest rate.	Average annual commission.[1]	Interest plus commission.
NEW ENGLAND.			
Maine	6.1	0.1	6.2
New Hampshire	5.3	(2)	5.3
Vermont	5.6	(2)	5.6
Massachusetts	5.6	(2)	5.6
Rhode Island	5.7	.2	5.9
Connecticut	5.7	(2)	5.7
MIDDLE ATLANTIC.			
New York	5.5	.1	5.6
District 2	5.4	.1	5.5
District 3	5.9	.1	6.0
District 4	5.4	.2	5.6
District 5	5.5	.1	5.6
District 6	5.6	.1	5.7
District 7	5.5	.1	5.6
District 8	5.5	.1	5.6
District 9	5.7	.1	5.8
New Jersey	5.5	.3	5.8
Pennsylvania	5.5	.3	5.8
District 1	5.9	.3	6.2
District 2	5.7	.3	6.0
District 3	5.7	(2)	5.7
District 4	6.0	.2	6.2
District 5	5.3	.4	5.7
District 6	5.4	.2	5.6
District 7	5.8	.4	6.2
District 8	5.2	.5	5.7
District 9	5.2	.1	5.3
EAST NORTH CENTRAL.			
Ohio	5.9	.2	6.1
District 1	5.7	.4	6.1
District 2	5.9	.1	6.0
District 3	5.9	.2	6.1
District 4	5.8	.3	6.1
District 5	5.8	.4	6.2
District 6	5.7	.1	5.8
District 7	6.0	.3	6.3
District 8	6.1	.2	6.3
District 9	6.0	(2)	6.0
Indiana	5.8	.4	6.2
District 1	5.5	.4	5.9
District 2	6.0	.4	6.4
District 3	5.7	.4	6.1
District 4	5.8	.4	6.2
District 5	5.8	.5	6.3
District 6	5.7	.4	6.1
District 7	6.0	.3	6.3
District 8	6.3	.1	6.4
District 9	5.8	.3	6.1
Illinois	5.7	.3	6.0
District 1	5.6	.2	5.8
District 3	5.3	.2	5.5
District 4	5.7	.2	5.9
District 4a	5.8	.2	6.0
District 5	5.7	.3	6.0
District 6	5.4	.3	5.7
District 6a	5.9	.5	6.4
District 7	6.1	.3	6.4
District 9	6.4	.5	6.9
Michigan	6.3	.3	6.6
District 1	6.9	.8	7.7
District 2	6.7	.6	7.3
District 3	6.9	1.4	8.3
District 4	6.7	.5	7.2
District 5	6.6	.4	7.0
District 6	6.5	.2	6.7
District 7	6.2	.2	6.4
District 8	5.9	.1	6.0
District 9	5.8	.1	5.9
EAST NORTH CENTRAL—contd.			
Wisconsin	5.7	0.1	5.8
District 1	6.3	.2	6.5
District 2	6.1	.2	6.3
District 3	6.3	.2	6.5
District 4	5.8	.1	5.9
District 5	5.7	.1	5.8
District 6	5.0	.1	5.1
District 7	5.7	(2)	5.7
District 8	5.4	(2)	5.4
District 9	5.0	(2)	5.0
WEST NORTH CENTRAL.			
Minnesota	6.3	.5	6.8
District 1	6.7	.8	7.5
District 2	8.6	1.2	9.8
District 3	7.1	.8	7.9
District 4	6.0	.5	6.5
District 5	6.2	.3	6.5
District 6	6.7	.8	7.5
District 7	5.7	.6	6.3
District 8	5.7	.2	5.9
District 9	5.8	(2)	5.8
Iowa	5.6	.3	5.9
District 1	5.5	.3	5.8
District 2	5.4	.3	5.7
District 3	5.7	.1	5.8
District 4	5.5	.4	5.9
District 5	5.7	.3	6.0
District 6	5.9	.2	6.1
District 7	5.5	.5	6.0
District 8	5.7	.3	6.0
District 9	5.8	.2	6.0
Missouri	6.2	.6	6.8
District 1	5.8	.5	6.3
District 2	5.8	.6	6.4
District 3	5.9	.5	6.4
District 4	5.9	.5	6.4
District 5	6.5	.6	7.1
District 6	6.6	.3	6.9
District 7	6.3	.8	7.1
District 8	7.1	.9	8.0
District 9	6.6	.6	7.2
North Dakota	6.9	1.8	8.7
District 1	6.8	2.2	9.0
District 2	6.7	1.9	8.6
District 3	6.3	1.3	7.6
District 4	7.7	2.4	10.1
District 5	6.8	1.4	8.2
District 6	6.4	1.0	7.4
District 7	7.3	2.8	10.1
District 8	7.8	1.8	9.6
District 9	6.5	1.2	7.7
South Dakota	7.0	1.0	8.0
District 1	9.0	1.8	10.8
District 2	6.5	.9	7.4
District 3	6.3	.7	7.0
District 4	8.3	1.4	9.7
District 5	6.5	.9	7.4
District 6	5.8	.5	6.3
District 7	7.5	1.9	9.4
District 8	7.2	1.4	8.6
District 9	6.0	.6	6.6
Nebraska	6.3	.8	7.1
District 1	7.8	1.0	8.8
District 2	6.8	1.2	8.0
District 3	5.6	.6	6.2
District 4	7.1	1.6	8.7
District 5	5.9	.7	6.6
District 6	5.6	.5	6.1
District 7	7.4	1.3	8.7

[1] Where the report shows a commission paid once for all in advance on a loan running more than one year, the equivalent annual commission is used.
[2] Less than one-tenth of 1 per cent.

TABLE 3.—*Farm-mortgage loans—Average rates for interest and commission, by States and districts*—Continued.

Geographic division, State, and district.	Average interest rate.	Average annual commission.[1]	Interest plus commission.
WEST NORTH CENTRAL—continued.			
Nebraska—Contd.			
District 8	6.1	0.6	6.7
District 9	5.7	.5	6.2
Kansas	6.1	.8	6.9
District 1	7.7	1.1	8.8
District 2	6.0	.7	6.7
District 3	5.7	.6	6.3
District 4	8.0	.8	8.8
District 5	5.9	.7	6.6
District 6	5.7	.8	6.5
District 7	7.3	1.5	8.8
District 8	6.1	.8	6.9
District 9	5.8	.7	6.5
SOUTH ATLANTIC.			
Delaware	5.6	(2)	5.6
Maryland	5.7	.4	6.1
District 1	5.7	.5	6.2
District 2	5.6	.3	5.9
District 3	5.8	.5	6.3
District 5	5.9	.3	6.2
District 6	(3)	(3)	(3)
District 8	6.0	.3	6.3
Virginia	6.1	.7	6.8
District 2	5.8	.6	6.4
District 4	5.9	.6	6.5
District 5	6.2	1.5	7.7
District 6	6.1	.5	6.6
District 7	6.1	.3	6.4
District 8	6.4	.4	6.8
District 9	6.5	.3	6.8
West Virginia	6.2	.2	6.4
District 1	6.1	.1	6.2
District 2	6.0	.1	6.1
District 3	6.0	.4	6.4
District 4	7.5	.2	7.7
District 5	6.3	(2)	6.3
District 6	6.0	.2	6.2
District 8	6.1	.1	6.2
North Carolina	6.3	1.4	7.7
District 1	6.1	1.6	7.7
District 2	6.0	1.2	7.2
District 3	5.9	.7	6.6
District 4	6.3	1.1	7.4
District 5	6.2	1.5	7.7
District 6	6.9	2.1	9.0
District 7	6.9	1.8	8.7
District 8	6.1	1.0	7.1
District 9	6.4	1.4	7.8
South Carolina	7.8	.6	8.4
District 1	7.8	.5	8.3
District 2	7.9	.4	8.3
District 3	7.6	.4	8.0
District 4	7.7	.7	8.4
District 5	7.9	.5	8.4
District 6	(3)	(3)	(3)
District 8	7.8	1.1	8.9
Georgia	7.6	1.1	8.7
District 1	7.3	.7	8.0
District 2	7.6	1.1	8.7
District 3	7.4	1.0	8.4
District 4	7.7	1.1	8.8
District 5	7.5	1.3	8.8
District 6	7.1	1.4	8.5
District 7	7.9	1.1	9.0
District 8	7.3	1.3	8.6
District 9	7.6	.6	8.2
Florida	9.0	.6	9.6
District 1	9.0	.7	9.7
District 3	9.7	.2	9.9
District 5	8.5	1.0	9.5
District 8	9.1	.3	9.4
EAST SOUTH CENTRAL.			
Kentucky	6.7	0.4	7.1
District 1	6.9	.4	7.3
District 2	6.4	.1	6.5
District 3	6.7	.4	7.1
District 5	6.0	.3	6.3
District 6	7.0	.4	7.4
District 7	7.8	.2	8.0
District 7a	6.7	.4	7.1
District 8	6.5	.5	7.0
District 9	7.4	.4	7.8
Tennessee	7.3	.6	7.9
District 1	8.0	.5	8.5
District 2	6.8	.9	7.7
District 3	6.3	.5	6.8
District 4	8.4	.5	8.9
District 5	6.8	.6	7.4
District 6	6.8	.5	7.3
District 7	8.6	.6	9.2
District 8	6.8	.6	7.4
District 9	7.3	.4	7.7
Alabama	8.7	.7	9.4
District 1	8.8	.3	9.1
District 2	9.0	.9	9.9
District 3	8.7	.7	9.4
District 4	9.0	.5	9.5
District 5	8.2	.9	9.1
District 6	9.4	.4	9.8
District 7	8.2	.9	9.1
District 8	9.0	.3	9.3
District 9	8.7	.9	9.6
Mississippi	8.0	.5	8.5
District 1	7.6	1.3	8.9
District 2	8.2	.2	8.4
District 3	8.3	.4	8.7
District 4	7.8	.6	8.4
District 5	8.0	.5	8.5
District 6	7.5	.5	8.0
District 7	8.2	.5	8.7
District 8	8.3	.6	8.9
District 9	7.7	.5	8.2
WEST SOUTH CENTRAL.			
Arkansas	9.0	.6	9.6
District 1	8.6	.8	9.4
District 2	9.2	.6	9.8
District 3	8.9	.5	9.4
District 4	9.1	.7	9.8
District 5	9.2	.5	9.7
District 6	8.8	.5	9.3
District 7	8.9	1.2	10.1
District 8	10.0	(2)	10.0
District 9	8.5	.7	9.2
Louisiana	8.2	.4	8.6
District 1	8.3	.3	8.6
District 2	9.2	.6	9.8
District 3	7.8	.2	8.0
District 4	8.3	.5	8.8
District 5	8.4	.3	8.7
District 6	8.3	.5	8.8
District 7	8.2	.9	9.1
District 8	7.6	.4	8.0
District 9	7.6	.2	7.8
Oklahoma	6.6	1.8	8.4
District 1	6.6	1.6	8.2
District 2	6.0	1.2	7.2
District 3	7.2	1.8	9.0
District 4	6.5	1.7	8.2
District 5	6.6	1.5	8.1
District 6	7.2	2.2	9.4
District 7	6.3	1.6	7.9

[1] Where the report shows a commission paid once for all in advance on a loan running more than one year, the equivalent annual commission is used.
[2] Less than one-tenth of 1 per cent.
[3] Data at hand not sufficient to warrant the showing of a district average.

TABLE 3.—*Farm-mortgage loans—Average rates for interest and commission, by States and districts*—Continued.

Geographic division, State, and district.	Average interest rate.	Average annual commission.[1]	Interest plus commission.
WEST SOUTH CENTRAL—continued.			
Oklahoma—Contd.			
District 8	6.6	2.1	8.7
District 9	7.1	2.8	9.6
Texas	8.4	.6	9.0
District 1	8.6	.9	9.5
District 2	8.2	.6	8.8
District 3	9.6	.3	9.9
District 4	(2)	(2)	(2)
District 4a	8.3	.5	8.8
District 5	7.9	.6	8.5
District 6	9.0	.9	9.9
District 8	8.2	.8	9.0
District 9	8.4	.6	9.0
MOUNTAIN.			
Montana	8.4	1.6	10.0
District 1	8.1	1.9	10.0
District 2	8.7	1.8	10.5
District 3	8.5	1.7	10.2
District 4	(2)	(2)	(2)
District 5	8.2	1.5	9.7
District 6	8.5	2.4	10.9
District 7	(2)	(2)	(2)
District 8	8.1	1.1	9.2
District 9	8.7	1.3	10.0
Idaho	8.2	.7	8.9
District 1	7.9	.5	8.4
District 2	(2)	(2)	(2)
District 4	8.5	.5	9.0
District 5	8.0	.9	8.9
District 7	8.3	.6	8.9
District 8	8.5	.6	9.1
District 9	8.3	.9	9.2
Wyoming	9.2	.8	10.0
District 1	9.4	.7	10.1
District 2	9.8	.3	10.1
District 3	10.1	1.5	11.6
District 4	9.3	.7	10.0
District 5	8.8	.5	9.3
District 6	8.7	1.3	10.0
District 7	(2)	(2)	(2)
District 8	(2)	(2)	(2)
District 9	8.5	.9	9.4
MOUNTAIN—contd.			
Colorado	8.3	0.6	8.9
District 1	8.0	.5	8.5
District 2	7.2	.4	7.6
District 3	8.4	.7	9.1
District 4	8.0	.5	8.5
District 5	7.8	.6	8.4
District 6	9.5	.8	10.3
District 7	8.8	.5	9.3
District 8	8.0	.9	8.9
District 9	7.9	.5	8.4
New Mexico	9.7	.8	10.5
Arizona	9.1	.3	9.4
Utah	8.6	.4	9.0
PACIFIC.			
Washington	7.9	.8	8.7
District 1	7.9	.5	8.4
District 2	9.1	1.7	10.8
District 3	8.9	.6	9.5
District 4	7.9	.9	8.8
District 5	8.3	.8	9.1
District 6	7.3	.5	7.8
District 7	7.7	.9	8.6
District 8	7.8	.8	8.6
District 9	7.6	.3	7.9
Oregon	7.7	.3	8.0
District 1	7.5	.3	7.8
District 2	7.8	.3	8.1
District 3	7.7	.3	8.0
District 4	7.4	.4	7.8
District 5	8.1	.5	8.6
District 7	7.9	.2	8.1
District 8	(2)	(2)	(2)
District 9	(2)	(2)	(2)
California	7.4	.2	7.6
District 1	6.4	.1	6.5
District 2	8.2	.2	8.4
District 3	7.4	(3)	7.4
District 4	7.2	.1	7.3
District 5	7.0	.2	7.2
District 5a	7.7	.3	8.0
District 6	7.8	.1	7.9
District 6a	7.7	.2	7.9
District 8	7.5	.4	7.9

[1] Where the report shows a commission paid once for all in advance on a loan running more than one year, the equivalent annual commission is used.
[2] Data at hand not sufficient to warrant the showing of a district average.
[3] Less than one-tenth of 1 per cent.

PERCENTAGE OF BUSINESS ON WHICH COMMISSION IS PAID.

Table 4 and Diagram C reflect the relative importance of farm-mortgage loans with no commission, advance commission, and annual commission in each State, as indicated by these studies. It will be noticed that in those States where the margin charged for commission is relatively high—for example, North Dakota, Oklahoma, and Montana—the percentage of loans on which commission is charged is also relatively high. Obviously, the general average for commission is affected both by the amount of the commission where this is charged, as well as by the relative number of loans which pay commission.

There is a fairly definite relation between the proportion of the farm-mortgage loans in a given State which are made with commission and without commission, and the important sources from which funds are obtained for such loans. Broadly speaking, the no-commission loans represent that part of the farm-mortgage loans made from local capital. To the extent therefore that the farm-mortgage loans made by banks indicate the relative amount of local capital thus invested one may expect to find some degree of correlation between the proportion of no-commission loans and the proportion of the total amount of farm mortgages held by the local banks. In Arkansas, for example, where the figures show that more than one-fourth of the total farm-mortgage loans are made by banks, 67 per cent of the farm-mortgage business is done without commission, while in Oklahoma, where the farm mortgages held by local banks represent only 3 per cent of the estimated total outstanding, less than 9 per cent of the business is done without commission.

TABLE 4.—*Percentage of farm-mortgage business on which commission is paid.*

Geographic division and State.	Percentage without commission.	Percentage with commission.		
		Total.	With commission paid in advance.	With commission paid in installments.
New England:				
Maine	91.1	8.9	5.0	3.9
New Hampshire	96.6	3.4	3.4	....
Vermont	94.1	5.9	4.8	1.1
Massachusetts	97.2	2.8	2.7	.1
Rhode Island	78.3	21.7	11.7	10.0
Connecticut	98.7	1.3	1.3	....
Middle Atlantic:				
New York	86.6	13.4	9.6	3.8
New Jersey	72.3	27.7	18.7	9.0
Pennsylvania	81.4	18.6	10.1	8.5
East North Central:				
Ohio	73.7	26.3	17.9	8.4
Indiana	54.5	45.5	36.2	9.3
Illinois	52.7	47.3	39.1	8.2
Michigan	76.8	23.2	18.0	5.2
Wisconsin	85.1	14.9	10.4	4.5
West North Central:				
Minnesota	52.3	47.7	20.0	27.7
Iowa	36.0	64.0	51.3	12.7
Missouri	45.1	54.9	28.0	26.9
North Dakota	20.2	79.8	17.0	62.8
South Dakota	31.8	68.2	45.5	22.7
Nebraska	30.7	69.3	53.5	15.8
Kansas	32.2	67.8	30.6	37.2
South Atlantic:				
Delaware	98.1	1.9	1.9	....
Maryland	64.3	35.7	28.5	7.2
Virginia	65.9	34.1	26.2	7.9
West Virginia	88.9	11.1	8.8	2.3
North Carolina	59.1	40.9	27.5	13.4
South Carolina	64.7	35.3	26.0	9.3
Georgia	33.9	66.1	54.1	12.0
Florida	70.2	29.8	18.6	11.2
East South Central:				
Kentucky	76.7	23.3	14.2	9.1
Tennessee	64.6	35.4	23.9	11.5
Alabama	62.8	37.2	25.2	12.0
Mississippi	74.5	25.5	15.7	9.8

TABLE 4.—*Percentage of farm-mortgage business on which commission is paid*—Continued.

Geographic division and State.	Percentage without commission.	Percentage with commission.		
		Total.	With commission paid in advance.	With commission paid in installments.
West South Central:				
Arkansas	66.9	33.1	18.6	14.5
Louisiana	76.8	23.2	16.3	6.9
Oklahoma	8.4	91.6	36.7	54.9
Texas	57.0	43.0	27.1	15.9
Mountain:				
Montana	31.1	68.9	28.4	40.5
Idaho	35.8	64.2	45.6	18.6
Wyoming	59.9	40.1	28.1	12.0
Colorado	41.7	58.3	47.0	11.3
New Mexico	59.0	41.0	32.8	8.2
Arizona	80.5	19.5	9.5	10.0
Utah	67.0	33.0	18.3	14.7
Pacific:				
Washington	41.8	58.2	46.4	11.8
Oregon	68.4	31.6	23.6	8.0
California	81.0	19.0	15.1	3.9

Again, it is found that the States deriving a large percentage of their farm-mortgage funds from insurance companies are among those where commission is paid on a relatively large proportion of the farm-mortgage loans. This condition follows naturally from the fact that wherever capital for mortgage loans is obtained from outside sources, especially from distant sources, it generally passes through the hands of one or more middlemen, to whom commissions must be paid. Insurance companies, of course, represent only one of several outside sources from which capital for farm-mortgage loans is secured, but they are of sufficient importance in a number of States to make it of interest to compare the proportion of the total farm-mortgage capital which they furnish with the proportion of farm-mortgage business on which commission is charged. For example, in Georgia, Nebraska, Oklahoma, Kansas, South Dakota, and Iowa, which are among the States obtaining the largest proportion of their farm-mortgage capital from insurance companies, the percentage of farm-mortgage business on which commission is charged ranges from 64 (in Iowa) to 92 (in Oklahoma). On the other hand, in States like Michigan and Wisconsin, where farm mortgages held by insurance companies represent less than 2 per cent of the estimated total farm-mortgage debt, the proportion of the farm-mortgage business on which commission is paid is much less, and those Eastern States where the insurance companies do practically no farm-mortgage business are among those having the lowest percentage of commission loans.

It may be concluded, therefore, that the practice of charging commission is most widely current in States where it is necessary to

Diagram A. FARM MORTGAGE LOANS
AVERAGE RATES FOR INTEREST AND COMMISSION

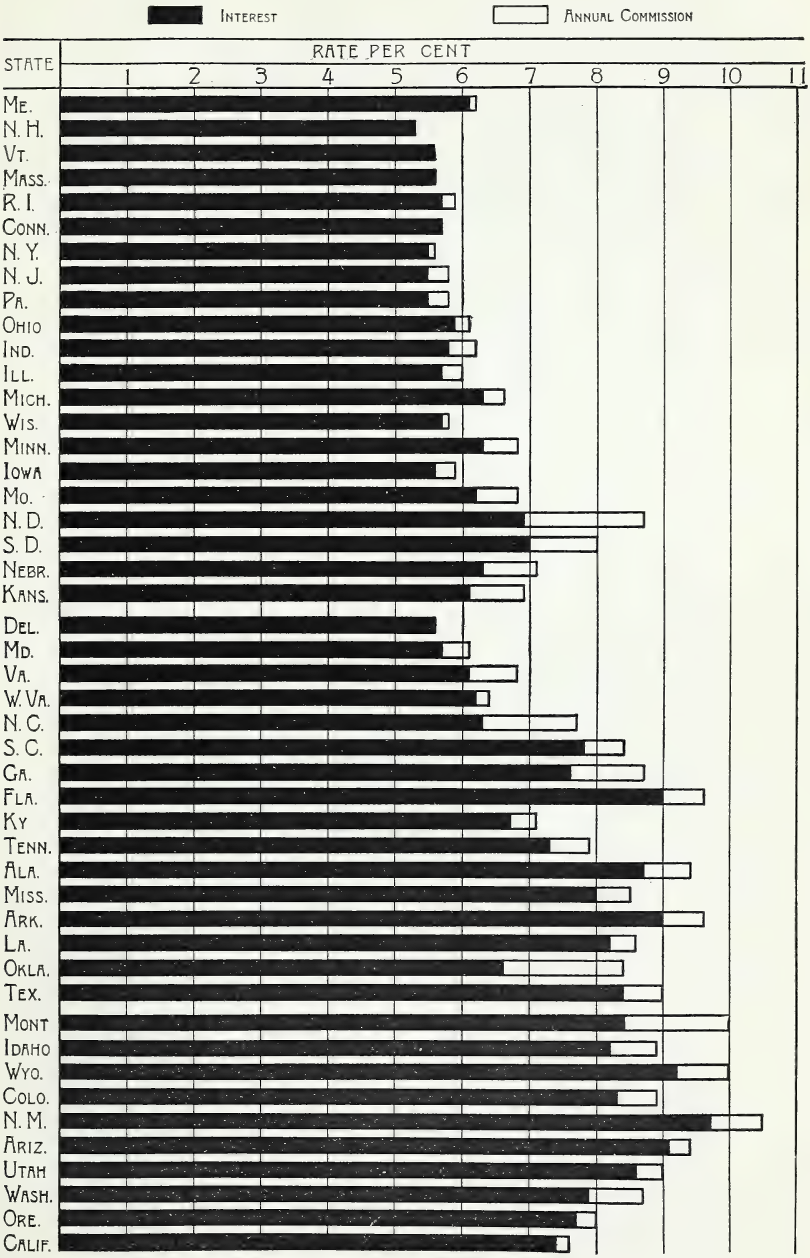


Diagram B. FARM MORTGAGE LOANS

RATES REPORTED FOR INTEREST PLUS COMMISSION

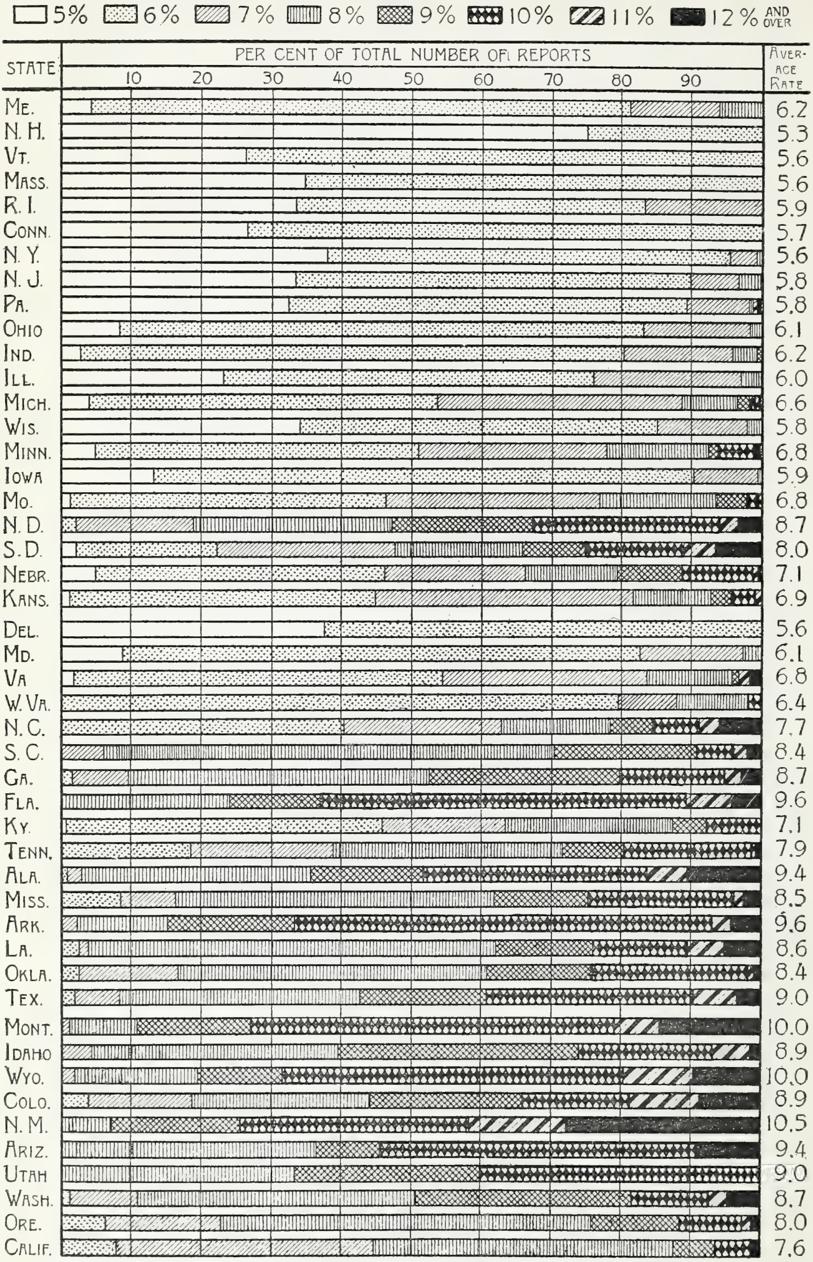


Diagram C. FARM MORTGAGE LOANS

PERCENTAGE OF BUSINESS ON WHICH COMMISSION IS PAID

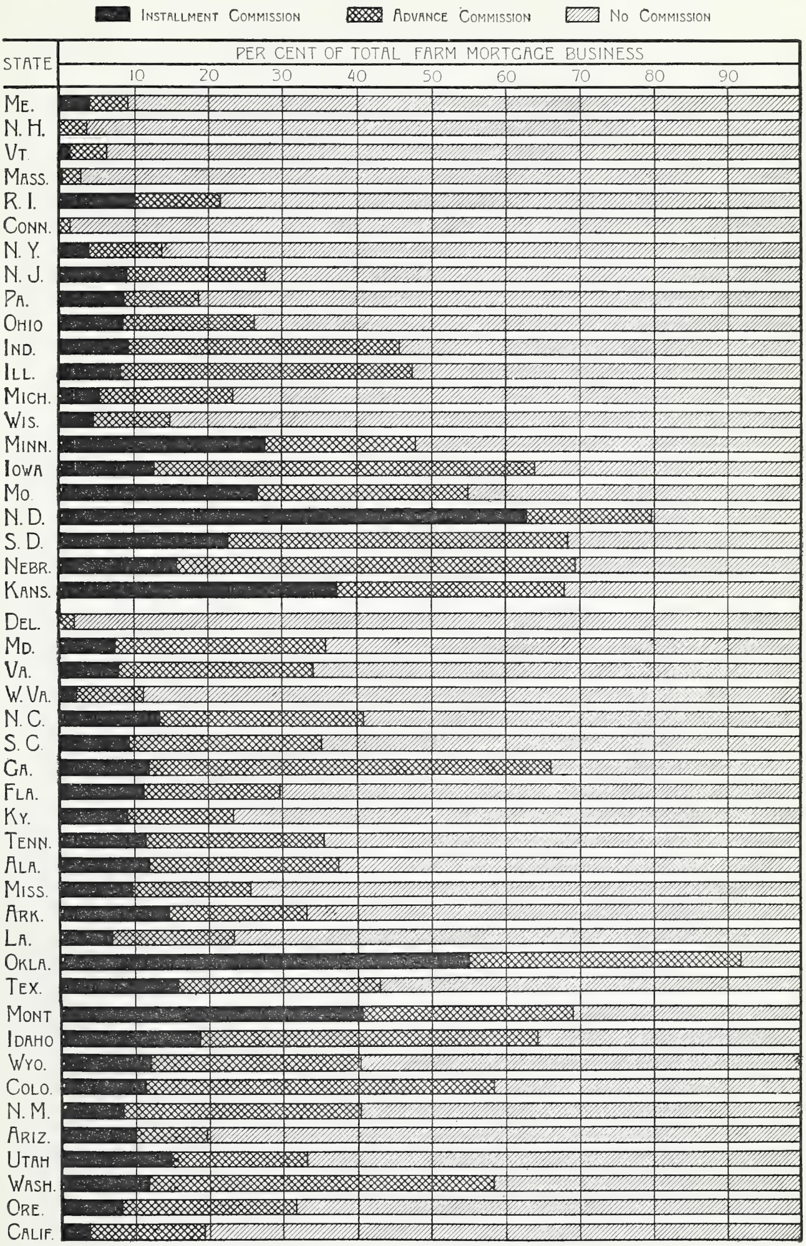


Diagram D. FARM MORTGAGES HELD BY LIFE INSURANCE COMPANIES AND BANKS AND TOTAL FARM MORTGAGE DEBT

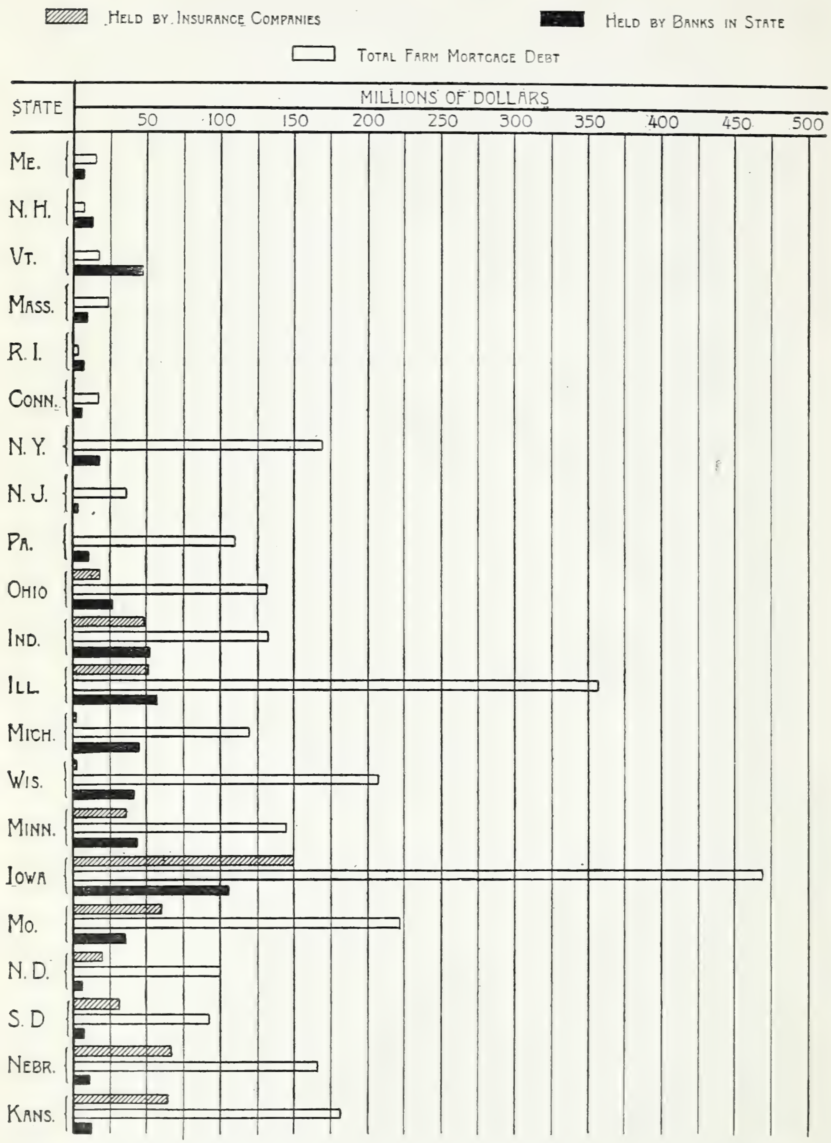
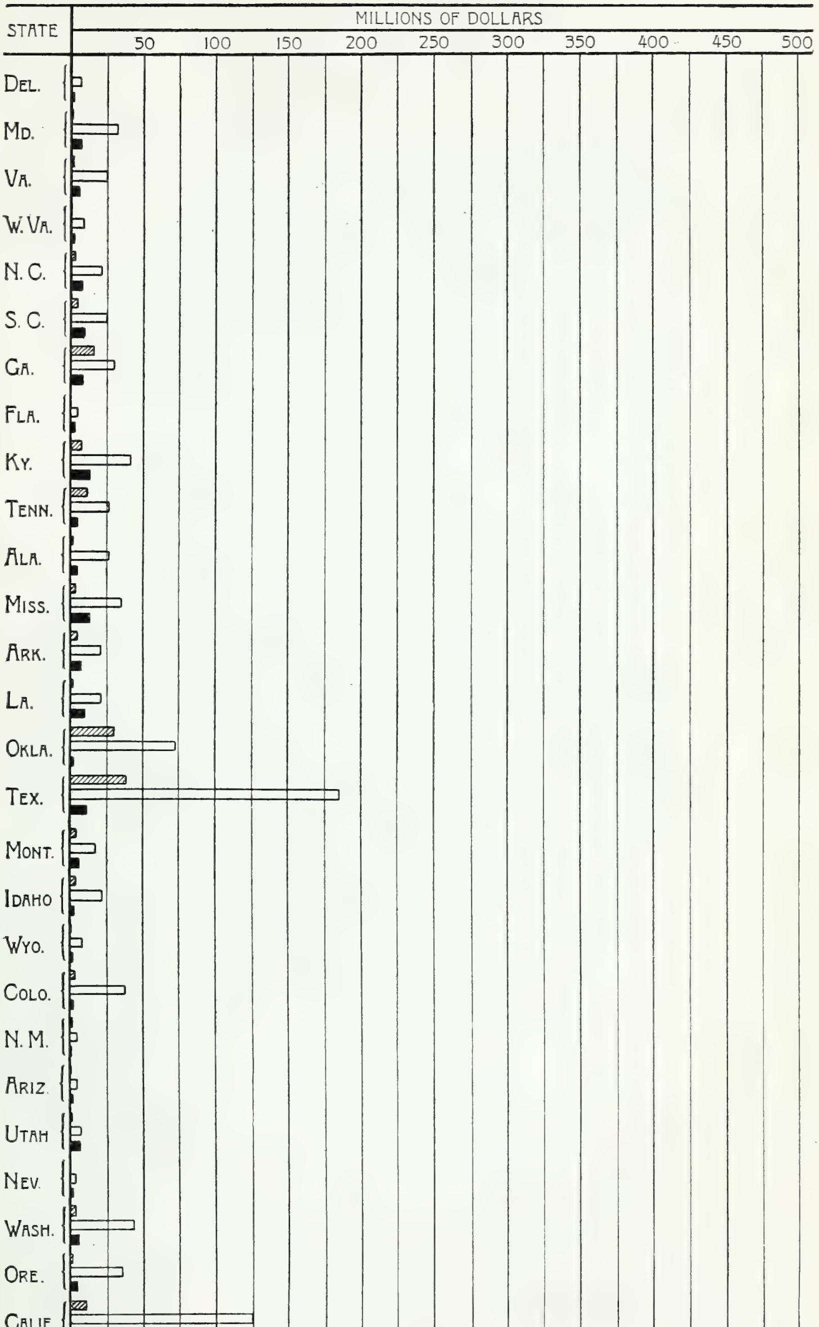
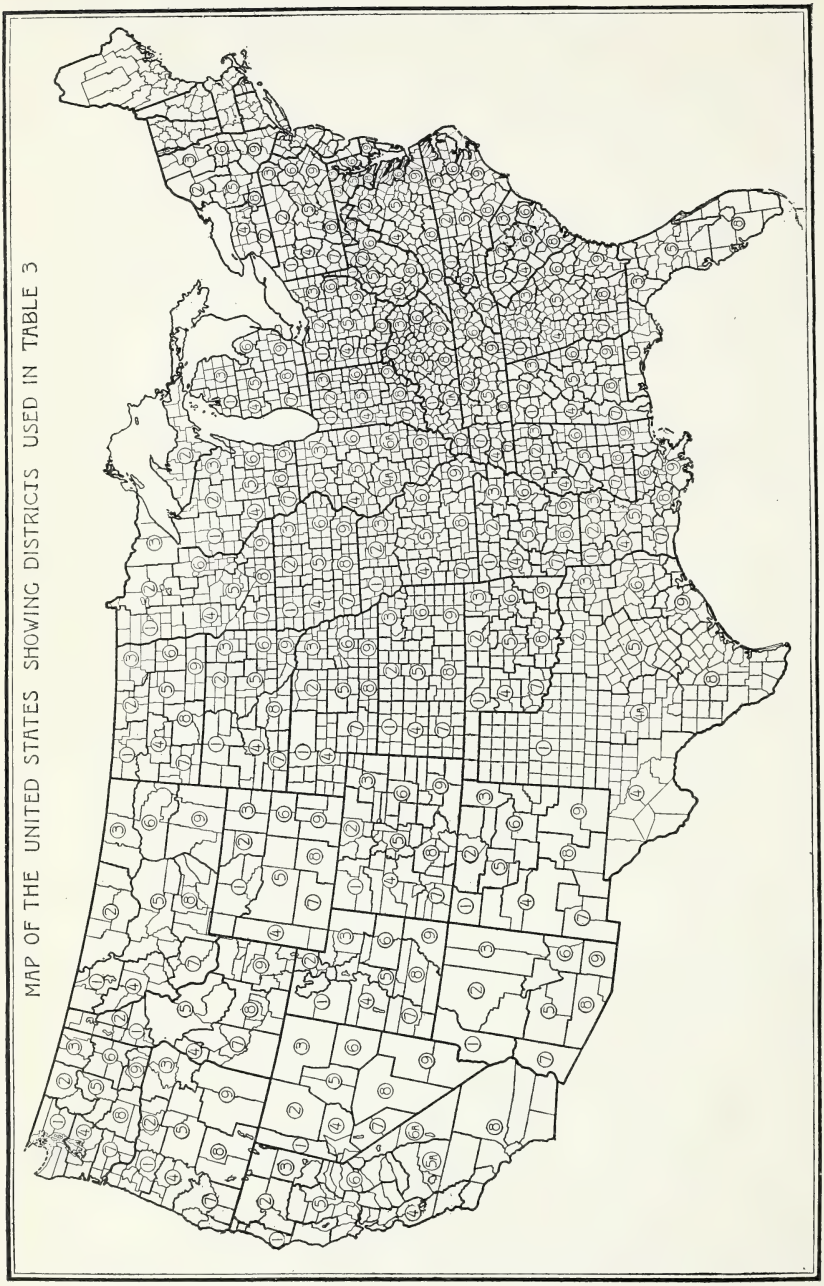


DIAGRAM D. CONTINUED





MAP OF THE UNITED STATES SHOWING DISTRICTS USED IN TABLE 3

draw on outside capital for considerable amounts; and that, on the other hand, in States where local capital is in the main sufficient for farm-mortgage loans, a large proportion of the loans are made without the payment of any commission.

SOURCES OF CAPITAL FOR FARM-MORTGAGE LOANS.

BANKS.

The sources of capital available for farm-mortgage loans in the various States have been studied carefully. Banks appear to furnish from their own funds approximately $740,000,000, or more than one-fifth of the total amount invested in farm mortgages in the United States. Table 5 and Diagram D show the relative importance of the farm mortgages held by banks in each State. In California the farm mortgages held by banks represent 45 per cent of the estimated total farm-mortgage debt; in Louisiana, 45 per cent; in Indiana and Michigan, nearly 40 per cent; and in Mississippi and South Carolina, more than 36 per cent.

So far as the bank funds in any State invested in farm mortgages represent local capital, there is the advantage of first-hand contact with borrowers, enabling the investor to see that the security is properly cared for during the term of the loan. In certain sections, such as the New England and the Middle Atlantic States, where it is customary for banks to place loans in other States, the banks do not have this advantage, but must operate through other agencies in placing their loans.

TABLE 5.—*Quantitative data relative to farm-mortgage loans.*

[Figures for amounts represent thousands of dollars.]

Geographic division and State.	Estimated total farm-mortgage debt.[1]	Farm mortgages held by life insurance companies.[2]		Farm mortgages held by banks.[3]		Farm mortgages "handled" by banks.[4]
		Amount.	Per cent of estimated total.	Amount.	Per cent of estimated total.	
United States	3,598,985	693,940	19.3	739,500	20.6	486,580
Geographic divisions:						
New England	80,544	106	0.1	84,900	105.4	10
Middle Atlantic	313,150	556	.2	30,900	9.9	2,040
East North Central	944,436	121,075	12.8	220,000	23.3	123,360
West North Central	1,375,903	426,960	31.0	216,400	15.7	282,710
South Atlantic	153,155	22,930	15.0	40,800	26.6	19,920
East South Central	127,135	22,871	18.0	33,600	26.4	4,710
West South Central	299,614	72,685	24.3	27,900	9.3	18,750
Mountain	101,285	12,532	12.4	19,800	19.5	17,300
Pacific	203,757	14,225	7.0	65,200	32.0	17,780

[1] Estimate based on Thirteenth Census figures, assuming that the ratio between the mortgage debt on farms operated by their owners and the total value of all such farms holds good for tenant farms also. It is possible that this ratio may be too high for the tenant farms in some of the States, in which case the estimates will be too large; but even if this is the case, the figures presented have considerable value as representing the maximum amount of farm mortgages probably outstanding in the census year.

[2] Based on reports received (in October, 1915) from 2[illegible]0 insurance companies, comprising five-sixths of the total number in the United States and having more than 99 per cent of the total admitted assets.

[3] Estimate based on reports received from banks in the spring of 1914.

[4] Farm mortgages negotiated by banks or bank officials as agents or correspondents for other investors. Estimates based on reports received from banks in the spring of 1914.

TABLE 5.—*Quantitative data relative to farm-mortgage loans*—Continued.

[Figures for amounts represent thousands of dollars.]

Geographic division and State.	Estimated total farm-mortgage debt.[1]	Farm mortgages held by life insurance companies.[2]		Farm mortgages held by banks.[3]		Farm mortgages "handled" by banks.[4]
		Amount.	Per cent of estimated total.	Amount.	Per cent of estimated total.	
New England:						
Maine	13,727	15	0.1	6,000	43.7	....
New Hampshire	6,100	....	....	12,500	204.9	....
Vermont	17,113	13	.1	46,700	272.9	....
Massachusetts	24,077	9	(5)	8,700	36.2	10
Rhode Island	2,514	....	....	6,000	238.7	....
Connecticut	17,013	69	.4	5,000	29.4	....
Middle Atlantic:						
New York	168,234	128	.1	18,200	10.8	1,150
New Jersey	35,610	222	.6	2,600	7.3	30
Pennsylvania	109,312	206	.2	10,100	9.2	860
East North Central:						
Ohio	130,678	17,073	13.1	26,200	20.1	1,360
Indiana	132,325	48,789	36.9	52,000	39.3	14,590
Illinois	355,802	51,046	14.3	56,200	15.8	87,530
Michigan	118,950	1,706	1.4	44,900	37.8	6,640
Wisconsin	206,681	2,461	1.2	40,700	19.7	13,240
West North Central:						
Minnesota	145,181	35,577	24.5	43,600	30.0	43,020
Iowa	469,063	150,150	32.0	104,800	22.3	70,230
Missouri	223,107	59,699	26.8	34,900	15.6	31,170
North Dakota	100,364	19,423	19.4	5,000	5.0	42,370
South Dakota	92,467	31,024	33.6	6,200	6.7	43,190
Nebraska	165,015	66,614	40.4	10,400	6.3	19,580
Kansas	180,706	64,473	35.7	11,500	6.4	33,150
South Atlantic:						
Delaware	6,857	46	.7	1,600	23.3	....
Maryland	32,393	492	1.5	6,000	18.5	310
Virginia	25,007	670	2.7	5,000	20.0	570
West Virginia	8,725	23	.3	1,700	19.5	30
North Carolina	21,005	2,267	10.8	6,900	32.9	2,200
South Carolina	24,967	3,884	15.6	9,000	36.1	3,180
Georgia	29,711	15,479	52.1	8,000	26.9	12,280
Florida	4,490	69	1.5	2,600	57.9	1,350
East South Central:						
Kentucky	41,305	7,170	17.4	13,300	32.2	2,580
Tennessee	25,468	10,674	41.9	4,000	15.7	840
Alabama	25,943	1,771	6.8	3,700	14.3	750
Mississippi	34,419	3,256	9.5	12,600	36.6	540
West South Central:						
Arkansas	21,023	4,259	20.3	5,700	27.1	1,250
Louisiana	21,141	1,500	7.1	9,000	42.6	2,610
Oklahoma	73,129	29,065	39.7	2,100	2.9	6,550
Texas	184,321	37,861	20.5	11,100	6.0	8,340
Mountain:						
Montana	17,111	3,518	20.6	5,200	30.4	7,850
Idaho	21,566	2,948	13.7	2,200	10.2	4,980
Wyoming	7,148	487	6.8	1,200	16.8	830
Colorado	36,767	3,135	8.5	2,100	5.7	1,740
New Mexico	4,585	1,191	26.0	400	8.7	390
Arizona	4,161	376	9.0	1,600	38.5	1,070
Utah	6,818	862	12.6	6,000	88.0	340
Nevada	3,129	15	.5	1,100	35.2	100
Pacific:						
Washington	43,470	3,087	7.1	5,000	11.5	11,110
Oregon	35,535	1,091	3.1	4,100	11.5	2,910
California	124,752	10,047	8.1	56,100	45.0	3,760

[1] See footnote 1 on page 9.
[2] See footnote 2 on page 9.
[3] See footnote 3 on page 9.
[4] See footnote 4 on page 9.
[5] Less than one-tenth of 1 per cent.

The relative importance of farm-mortgage loans from different classes of banks may also be noted. In Iowa, where 56 per cent of the total number of stock savings banks of the United States are located, banks of this class supply more than two-thirds of the

total capital from all banks in the State. Likewise in California the savings banks furnish even a larger proportion of the total capital invested in farm mortgages by all banks. On the other hand, in Minnesota, where there are few savings banks, the farm-mortgage loans held by State and private banks and trust companies constitute about 95 per cent of the total amount of such loans held by all banks in that State.

LIFE INSURANCE COMPANIES.

The importance of life insurance companies as sources of capital for farm-mortgage loans in the various States is also shown in Table 5 and in Diagram D. It is seen that these insurance companies supply approximately $700,000,000 for farm-mortgage loans, or about one-fifth of the total farm-mortgage capital of the United States. Practically one-half of the insurance money is invested in the four States of Iowa, Missouri, Kansas, and Nebraska. Iowa alone holds nearly 22 per cent of the total amount of insurance money invested in farm mortgages. In few of the Southern or Rocky Mountain States do the insurance funds invested in farm mortgages represent more than one-half of 1 per cent of the total farm-mortgage capital obtained from this source.

The life insurance companies either have their own farm-mortgage departments, through which they receive and pass on applications for loans, or they purchase farm mortgages outright in the commercial market. The latter practice generally is limited to the smaller insurance companies, the volume of whose business in this field is not sufficient to warrant their establishing separate machinery for the selection of farm-mortgage securities.

On the other hand, the larger insurance companies, which invest considerable amounts in farm mortgages, have very well-organized departments, through which they carry on a regular farm-mortgage loan business. They usually limit their loans to territory such as they can approve for this purpose, and hire salaried appraisers, whose inspection of any given individual loan is required before the loan is finally accepted. Ordinarily these companies receive applications through local agencies or correspondents, usually local banks. The application blanks and legal papers used by these insurance companies, including mortgages and notes, have been carefully standardized and adapted to the conditions in the various States where loans are made. While some of the companies show a tendency to make loans at relatively high rates, insurance companies more often represent a highly conservative class of investors in the farm-mortgage business. Their advent into any given State for investment purposes usually leads to a lowering of charges on farm mortgages. Local investors often are governed in their charges by the practices of competing insurance companies.

MORTGAGE COMPANIES.

Figures are not at hand to show the amount of capital invested in farm-mortgage loans by mortgage companies. These companies figure prominently in the farm-mortgage business in all parts of the country, however, and include a number of foreign companies which have invested heavily in farm mortgages in the West South Central, Rocky Mountain, and Pacific States.

There are a number of domestic mortgage companies which have confined their attention to a conservative loan business and have established a reputation for a relatively safe class of investment loans. This has enabled them to build up a clientele of investors, with connections of long standing. Other mortgage companies prefer to handle mortgage loans commanding relatively high rates and commissions. Among the latter are those mortgage companies which limit their business to second mortgages, and receive the extreme figures for both commission and interest.

Mortgage companies may be classified also with reference to the extent of the territory in which they do business. Thus there are those that cover a relatively large territory, including many States, while other companies limit their business to a more restricted area, often a single State or a part of a State. Most of the loans made by either class are placed through local agents or correspondents, although many of the smaller companies also make loans direct to farmers. A mortgage company may buy the mortgage and reassign it to another purchaser, or it may have the paper made out to itself in the first instance, to be resold later. In either case, the mortgage company collects a commission in addition to that received by the local agent or correspondent.

SCHOOL OR LAND-GRANT FUNDS.

In addition to the funds supplied for farm-mortgage loans by insurance companies, banks, and mortgage companies, approximately $25,000,000 is being loaned from school or land-grant funds directly to farmers in certain States, such as Indiana, Iowa, North Dakota, South Dakota, Oklahoma, Idaho, Utah, and Oregon. The interest charge on these loans is usually 5 or 6 per cent, though in Idaho the rate is 7 per cent. These loans are handled directly from the State departments in North and South Dakota, Oklahoma, Idaho, Utah, and Oregon; in Indiana and Iowa, however, the loans are handled through the counties, which are held responsible for all losses on account of insufficient security or through defalcations by county officers.

PRIVATE INVESTORS.

No figures are available to show the amount of farm-mortgage capital supplied by private investors. It is clear, however, that in certain States, such as New York, Pennsylvania, Michigan, and Wisconsin, the amount of capital supplied by private investors is relatively large.

LOANS HANDLED BY BANKS.

Besides furnishing capital for farm-mortgage loans from their own funds, banks and mortgage companies act as intermediaries or middlemen, purchasing or negotiating large amounts of farm mortgages for insurance companies and other outside investors. The estimated amount of such business handled by banks is shown in the last column of Table 5. In North Dakota the banks negotiate about $40,000,000 a year in loans for other investors, whereas the amount invested in farm mortgages from their own funds is only one-eighth of this sum. Similarly, in Nebraska the amount handled by banks is more than three times the amount of bank capital invested in farm mortgages. In most of the States west of the Mississippi River, the banks engage rather extensively in the business of handling farm mortgages for other investors.

FACTORS WHICH INFLUENCE THE TERMS ON FARM-MORTGAGE LOANS.

No factor is given greater consideration by farm-mortgage investors, in determining their attitude toward loans in a given area, than the prevailing method of farming. The careful investor in farm mortgages considers all the known factors affecting the income of the farm offered as a security. He studies the relation of the farm income to the price of the land to determine whether the farm value is on a speculative or an investment basis. He is interested in the degree of regularity in income from year to year, and therefore tries to ascertain what crops or products are raised and how far these are adapted to the given conditions. He knows the extra hazards involved in one-crop farming, and therefore inquires about tendencies in the direction of diversified agriculture. He even inquires into the business habits of the farm owners and the kind of care given to the farm products. It is necessary, in general, to understand the importance of differences along all these lines in order to explain the variation in the costs of farm-mortgage loans to borrowers.

Climatic conditions are important because of their effect on the value of the farm security. The semiarid regions of the Western States do not attract capital as freely as the farming sections farther east, where rain is relatively abundant. Important sources of capital, including insurance companies and savings banks, often refuse to loan money on farm-mortgage security where the average rainfall is below

a certain figure. It is still uncertain how far the results of dry-farming methods will be able to overcome the diffidence of conservative investors with reference to loans in semiarid territory.

The character of the soil and the general contour of the country are also important. Capital does not flow as freely to southern Illinois as to other parts of that State, partly because of differences in soil conditions. Similarly, the Red River Valley, in the northern part of Minnesota and North Dakota, attracts capital relatively more freely than north-central Minnesota, largely because of differences in natural conditions. Illustrations of the effect of soil, contour, and climate on the flow of farm-mortgage capital could also be given from other parts of the country.

The distance from financial centers is an important factor. In studying the average interest rates for the different States, a gradual rise in costs is noted as one moves outward from the leading financial centers.

The character of the financial agencies through which farm-mortgage capital reaches the farmer is also of great importance. One needs to consider the part played by agencies that render local savings available for this purpose as well as the kind of facilities through which outside capital reaches the farmers of any given locality. Where local savings institutions have been well developed, as in Iowa or California, the effect on available local capital for farm-loan purposes is readily discerned. On the other hand, the result of a general lack of suitable local savings institutions, as shown especially in many regions of the South and West, is likewise apparent.

THE NEED FOR IMPROVED FACILITIES.

The practice of drawing on outside capital for farm-mortgage loans is found, as has been stated, both in the most highly developed agricultural sections of the corn belt and in the relatively less developed agricultural regions of the South and West. The general need for suitable facilities through which outside capital may reach the farmers in different parts of the country is therefore clear. In the United States it is a fairly well established practice for country banks or real estate firms to act as local agents or correspondents for outside or distant investors, either direct or through other middlemen. It is also the usual practice to market the farmer's mortgage note in its original form. This makes it necessary to find a purchaser who wants a mortgage of a given amount, running for a given time, and with given terms. Obviously, paper of this character will not sell as readily in the open market as standardized securities. Distant investors are not generally in a position to have first-hand knowledge of the farm security underlying a given mortgage note.

Moreover, they often prefer securities running in even amounts for uniform periods of time and with a convenient means of collecting the interest. Many investors prefer to be relieved of all concern as to the keeping up of the underlying security.

All these advantages are secured where the mortgage notes, instead of being marketed direct, are held as a collateral trust fund, and bond issues based thereon are placed on the market. To meet these requirements, institutions are needed, both to fix reliable and suitable standards for farm-mortgage loans, and to market them in the form of bonds. Such institutions can not be properly established without suitable safeguards. It is necessary to profit by the lessons of past American experience, and avoid the mistakes made by the debenture institutions in this country in the eighties and early nineties. The almost complete failure of the farm-mortgage debenture business in 1893 affords ample warning. There is need to take stock of all the factors that contributed to that failure. The granting of loans out of proportion to protection funds, the failure to build up adequate reserves, the basing of loans on boom estimates of land values, the extension of loans on lands of uncertain returns, the substitution of inferior for standard collateral securities, the utter lack of inspection and supervision under State or Federal law—these practices quite naturally led to disaster. As a result there was an almost complete collapse of these early debenture companies.

DESIRABILITY OF STATE AND FEDERAL LEGISLATION.

In order to establish institutions through which farm mortgages may be properly selected, according to reliable and suitable standards, and through which such mortgage loans may be converted into acceptable securities for the open market, it is clearly necessary to have legislation, both by the individual States and by the Federal Congress. The mortgage paper of any State can not be properly standardized without suitable State legislation governing the validity of land titles and the method of foreclosure. Farm-mortgage capital will not flow into a State whose taxation laws render the investment of farm-mortgage capital in other regions more profitable. Every State needs to husband carefully its resources of investment capital by providing suitable legislation for the creation of local savings institutions, as well as associations among borrowers for credit improvement.

At the same time it seems clear that, if the farmers are to obtain adequate connections with the outside capital of the open investment market—connections often involving wide areas, reaching across many States—the problem involved is one too large to be solved entirely by legislation on the part of any individual State. Moreover, a degree of uniformity in supervision and control is needed

which it is doubtful whether State legislation would supply. So far, therefore, as the problem is one of legislation to provide suitable institutions to connect the farmer with the open investment market, Federal legislation seems clearly necessary.[1]

CONCLUSION.

Being given a properly organized credit system, it is believed that the farmer who adopts business methods in his farming and thus shows himself worthy of credit will have adequate opportunity to secure it on reasonable terms. The farmers' need in connection with mortgage credit is to obtain investment capital for relatively long periods of time, on suitable terms of repayment, and at the lowest cost consistent with business policy. A properly organized system should supply this need, and, under suitable Federal regulation and control, should protect the farmer against the unreasonable charges now prevailing in many localities.

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[1] This bulletin was written before the Federal farm-loan act of July 17, 1916, was passed by Congress.

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